MO0087
newz group
Schuyler County Times
Publication Date: 11/15/2018 Page Number: 009
Title: Op-Ed, Hammond Institute for Free Enterprise
Author: To Increase Prosperity Missouri Should Increase Freedom
Size: 75.33 column inches
Glenwood, MO Circulation: 830

Business

Op-Ed, Hammond Institute for Free Enterprise

To Increase Prosperity

Missouri Should Increase Freedom

By Dean Stansel, Ph.D

Missouri's economy has lagged behind the rest of the nation for many years. My recent article in the Missouri Policy Journal examined how Missouri's economy, and its restrictions on labor markets, compare to other states. It's not a pretty picture, and the voters' recent approval of a minimum wage increase will only make matters worse.

Rating Missouri: Labor Market, The Economy

I examined six measures of the labor market and the economy, and compared Missouri to the U.S. average and the average amongst its 15 regionally-neighboring states (the eight border states plus the seven other non-bordering states in Missouri's Midwest region).

- Employment growth in Missouri was below the U.S average for 20 of the last 21 years, and below its regional neighbors' average for 17 of those years.
- Missouri's unemployment rate exceeded its regional neighbors' average for 17 of the last 18 years.
- The growth of wages and salaries fell short the last eight years in a row and 13 of the last 15.
- As a result, per capita income was lower, as well. The U.S. average exceeds Missouri's income by 15 percent, $50,392 compared to $43,661.
- The growth of gross domestic product lagged behind the U.S. average, seven of the last eight years and behind its regional neighbors' average six of those years.
- Missouri's population grew slower than the U.S. average for the last 37 years in a row, and slower than its regional neighbors five of the last seven years.

Missouri's Burdensome Restrictions on Labor Markets

Minimum Wage

In addition to the overwhelming evidence of a lagging economy, the Missouri Policy Journal article documented Missouri's burdensome restrictions on labor markets. For example, when measured, as a percentage of per capita personal income - to adjust for differences in cost of living - Missouri's minimum wage is 23rd highest in the nation, higher than eight of its 15 neighbors. The recently passed increase to $12 over five years would give Missouri the highest minimum wage in the nation.

Occupational Licensing Restrictions

An additional barrier to the success of low-skilled workers is occupational licensing. According to an Institute for Justice report, Missouri has the 22nd most burdensome occupational licensing restrictions on lower-income occupations, worse than ten of its 15 regional neighbors.

Right to Work (RTW) laws give employees the freedom to decide whether or not to join a labor union. Missouri passed one in 2017, but it was overturned by a voter referendum. All but three of its fifteen regional neighbors already have one, who are Illinois, Minnesota, and Ohio.

High Personal Income Tax Rates

State tax laws can also impact labor markets. High personal income tax rates can negatively affect individuals' incentives to work, and high taxes on businesses -- such as corporate income taxes and unemployment insurance taxes -- can negatively affect their ability to expand and hire new workers. According to the Tax Foundation, Missouri's 2018 top personal income tax rate of 5.9 percent, exceeds that of nine of its 15 regional neighbors. Even Illinois has a lower rate, which is 4.95 percent, and has one flat rate, which compares favorably to Missouri's 10-bracket progressive-rate tax system.

High Corporate Income Tax

Missouri's corporate income tax rate of 6.25 percent is higher than seven of its 15 regional neighbors, in part, because of a plethora of loopholes that narrow the tax base.

Missouri's Low Labor Market Freedom Score

Finally, the Fraser Institute's latest annual Economic Freedom of North America report (EFNA) was released recently. It provides an index of ten variables related to government spending, taxes, and labor market freedom. Although Missouri ranked 16th, that's down from 13th in last year's report, and behind seven of its 15 regional neighbors. Missouri's score was pulled down by a low score for labor market freedom, where it ranked only 29th.

Summary

Over 250 scholarly articles by independent researchers have used the EFNA data. The vast majority of that literature finds that economically freer areas tend to experience more broadly positive outcomes, including more economic prosperity. One reason is that high levels of

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taxes, spending, and regulation make it harder for entrepreneurs to succeed. When businesses can't expand and hire new workers, it hurts everyone.

Given that link between economic policy and positive economic outcomes, and the fact that Missouri trails so many of its neighbors on labor market freedom, the recipe for economic success is pretty clear. Scale back the burden of unnecessary restrictions on labor markets that make it harder for entrepreneurs to be successful -- avoiding minimum wage increases would be an essential part of that strategy -- and restrain the growth of government spending so that Missouri's excessive income tax rates can be reduced. *(Dean Stansel is an economist at the O'Neil Center for Global Markets and Freedom in Southern Methodist University's Cox School of Business and the primary author of the Fraser Institute's annual Economic Freedom of North America report. He may be reached at dstansel@smu.edu and 214-768-3492.)*

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